BANKING BRIEF

FOR PENNSYLVANIA, NEW JERSEY, AND DELAWARE

Third Quarter 2003

During the third quarter of 2003, banks continued to report an outstanding return on assets, with large banks in the Third District leading the way, earning an average return on assets of 1.3 percent. Improvements in loan quality and higher non-interest income contributed to banks' impressive performance.

The non-performing loan ratio has improved at banks of all sizes as they continue to resolve past credit quality problems, particularly those stemming from losses on commercial loans. Delinquency rates have fallen for all loan categories: from 2.68 percent during the third quarter of 2002 to 2.22 percent this quarter.[1] Delinquency rates for C&I loans fell from 3.91 to 3.31 percent over the same period. As a result, loss provisioning at the nation's banks declined, and this boosted their profits during the third quarter of 2003.

Notwithstanding slower mortgage refinancing activity during the quarter, banks continued to report strong increases in residential mortgage loans. Overall, real estate loans rose 12.8 percent at large banks in the nation. The corresponding figure for community banks in the nation was 9.6 percent. Business loan volume outstanding declined during the quarter, led by the almost 9 percent decline at large commercial banks. Community banks in the nation experienced a slight decline in C&I loans (1.3 percent), while tri-state community banks saw a 13 percent drop in these loans. The September 3 Beige Book reported that local banks' business customers have not experienced sufficient increases in demand to necessitate additional C&I borrowing. Consumer loans remained relatively flat at the nation's community banks and rose 8.1 percent at large banks. Overall asset growth seems to be leveling off, particularly at large banks.

MORTGAGE LENDING IN 2002

In August 2003 the Federal Financial Institutions Examination Council released data on mortgage lending transactions during 2002 that occurred at financial institutions covered by the Home Mortgage Disclosure Act (HMDA). Nationally, loans and applications increased 13 percent from 2001, which is mostly due to a 22 percent increase in refinancing activity. The number of home-purchase loans extended to all racial/ethnic groups increased, but to varying degrees. Loans increased 11 percent for Hispanics, 18 percent for Asians, 23 percent for Native Americans, 2 percent for blacks, and 3 percent for whites. In the tri-state area, the total number of loans and applications rose 20 percent, primarily because of a 34 percent increase in refinancing activity. As in the nation, every racial/ethnic group experienced an increase in loans in the tri-state area. Loans increased 22 percent for Hispanics, 23 percent for Asians, 20 percent for Native Americans, 9 percent for black applicants, and almost 9 percent for whites.

Throughout the nation, the number of loans extended to borrowers in all income groups increased from 2001 to 2002. Applicants in the low- or moderate-income category experienced a 7 percent increase; applicants in the middle-income category, 4 percent; applicants in the upper-income category, 3 percent.[2] In the tri-state area, the corresponding figures were 10 percent for the low- or moderate-income group, 13 percent for the middle-income group, and 7 percent for the upper-income group.

Nationally, the denial rate for conventional home purchase loans decreased to 14 percent in 2002, marking the fourth consecutive year that denial rates fell. In addition, all racial/ethnic groups experienced a decrease in denial rates from the previous year. Nationally, denial rates decreased to 26 percent for black applicants, 32 percent for Native Americans, 18 percent for Hispanics, 12 percent for white applicants, and 10 percent for Asian applicants. In the tri-state area, denial rates decreased to 17 percent for black applicants, 11 percent for Native Americans, 13 percent for Hispanics, 7 percent for whites, and 6 percent for Asian applicants.[3]

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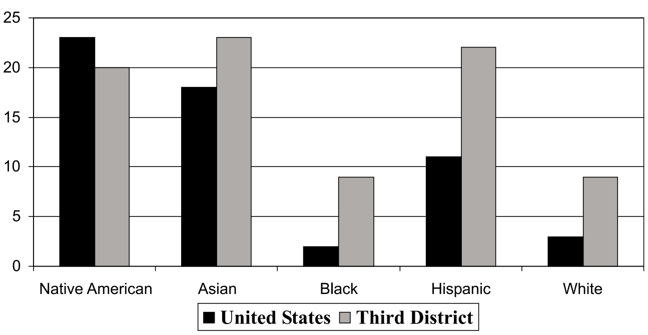
[1] The data are compiled from the FFIEC (Federal Financial Institutions Examination Council) Consolidated Reports of Condition and Income and reported in the Federal Reserve Statistical Release *Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks*.

[2] Income categories are based on median family income in the census tract as compared with the median family income of the metropolitan area (for definitions, please consult FFIEC, Home Mortgage Disclosure Act data at http://www.ffiec.gov).

[3] Although the data provide useful information about trends in denial rates by racial/ethnic groups over time, the HMDA data lack key underwriting information, such as an applicant's loan-to-value ratio, household composition, liquid assets, and credit history, as well as information about the property itself, such as sales price and appraisal value. See *Banking Brief*, Third Quarter 2000.

2001-2002 Percent Increase in the Number of Home Purchase Loans



Third Quarter 2003

Community Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	03Q3	**03Q2**	**02Q3**	**03Q3***	**03Q2**	**02Q3**
Total Assets	97.4	3.8	7.9	1418.8	6.1	8.9
Total Loans	58.2	7.5	7.5	901.4	7.0	8.1
Business	8.6	-13.4	1.9	152.0	-1.3	4.4
Real Estate	42.1	12.3	9.6	623.5	9.6	11.0
Consumer	5.1	4.0	-2.5	75.3	0.4	-3.1
Total Deposits	73.9	4.8	7.2	1132.8	4.7	8.1
Ratios (in %)	**03Q3**	**03Q2**	**02Q3**	**03Q3**	**03Q2**	**02Q3**
Net Income/ Avg Assets (ROA)	1.2	1.2	1.2	1.2	1.2	1.2
Net Interest Inc/ Avg Assets (NIM)	3.4	3.5	3.6	3.8	3.8	3.9
Noninterest Inc/ Avg Assets	1.3	1.3	1.3	1.2	1.1	1.1
Noninterest Exp/ Avg Assets	3.1	3.1	3.1	3.1	3.1	3.1
Loans/Deposits	78.8	78.3	78.5	79.6	79.2	79.6
Equity/Assets	9.4	9.4	9.5	9.7	9.7	9.8
Nonperforming Loans/ Total Loans	0.8	0.9	0.9	1.0	1.1	1.1

Large Banking Organizations

	Tri-State			*Nation*		
	$Bill	**% change from**		**$Bill**	**% change from**	
	03Q3	**03Q2**	**02Q3**	**03Q3**	**03Q2**	**02Q3**
Total Assets	1017.1	-1.4	8.7	5515.9	-4.4	7.4
Total Loans	576.9	3.9	5.2	3082.2	2.0	6.1
Business	135.8	-18.5	-14.5	690.5	-8.8	-8.0
Real Estate	309.7	15.2	23.1	1558.6	12.8	17.2
Consumer	54.7	7.8	0.2	418.3	8.1	4.6
Total Deposits	669.1	-3.0	8.6	3530.7	-2.9	8.6
Ratios (in %)	**03Q3**	**03Q2**	**02Q3**	**03Q3**	**03Q2**	**02Q3**
Net Income/ Avg Assets (ROA)	1.3	1.3	1.2	1.2	1.2	1.2
Net Interest Inc/ Avg Assets (NIM)	3.1	3.1	3.3	3.0	3.1	3.2
Noninterest Inc/ Avg Assets	2.4	2.4	2.5	2.3	2.3	2.3
Noninterest Exp/ Avg Assets	3.2	3.2	3.3	3.1	3.2	3.2
Loans/Deposits	86.2	84.8	89.1	87.3	86.2	89.3
Equity/Assets	9.0	9.0	9.4	8.4	8.4	8.7
Nonperforming Loans/ Total Loans	1.2	1.3	1.6	1.3	1.4	1.7

A banking organization is an independent bank or all the banks within a highest-level bank holding company; however, banks less than five years old and those whose credit card loans make up greater than 50 percent of their total loans are excluded. The large banking organization sample is based on banking organizations whose total assets were at least as large as those of the 100th largest banking organization in the United States as of December 31, 2002. The community banking organization sample is based on the remaining banking organizations. Tri-state large banking organizations are those large banking organizations that have either at least 5 percent of the deposits of the region or any state therein or at least 5 percent of their deposits in the region. Tri-state community banking organizations are those community banking organizations that are headquartered in the region. The numbers of banking organizations in the categories are as follows: (1) community banking organizations—203 for the tri-state area and 6035 for the nation; (2) large banking organizations—17 for the tri-state area and 98 for the nation. Ratios are aggregates, that is, the numerators and denominators are summed across all banks in the group, then divided. Data are adjusted for mergers. Quarterly percentage changes are compound annualized rates.

* This quarter's sample excluded one bank that changed its charter from a thrift to a bank.

Any questions or comments should be directed to Victoria Geyfman at (215) 574-6431 or victoria.geyfman@phil.frb.org. Detailed documentation on the methodology used in constructing this document, back issues, and the current issue of *Banking Brief* are available on our web site at www.phil.frb.org/econ/bb/index.html. To subscribe to this publication, please contact the Publications Desk at (215) 574-6428 or lois.newell@phil.frb.org.